



DEPARTMENT OF DEFENSE

AUDIT REPORT

RECOUPMENT OF TRANSPORTATION COSTS
INCURRED ON FOREIGN MILITARY SALES CASES

No. 90-038

February 23, 1990

*Office of the
Inspector General*



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Abstract We are providing this final report on the Audit of Recoupment of Transportation Costs Incurred on Foreign Military Sales (FMS) Cases for your review and comment. The audit was made during the period December 1988 through March 1989. The primary objectives of the audit were to determine whether transportation commands, including the Navy's QUICKTRANS and the Air Force's LOGAIR air operations, were properly reimbursed for all FMS transportation costs, and to evaluate the adequacy of the methods used to bill transportation costs to FMS customers. In addition, we reviewed the internal controls over the billing and reimbursement of these transportation costs. We also followed up on recommendations from two prior audit reports covering the subject area. During FY's 1987 and 1988, FMS transportation billings to foreign customers amounted to \$30.5 million. The audit showed that basic procedures exist to ensure that processing of accurate billing information is possible. However, a change is needed in the methodology used to bill FMS customers. In addition, the audit made limited reviews and tests of the internal controls. These reviews and tests showed no material internal control weaknesses. We found that tested items were generally in compliance with applicable laws and regulations; however, we could not determine whether untested items were in compliance with those laws and regulations. The results of the audit are summarized in the following paragraph, and the details and audit recommendations are report.		

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INSPECTOR GENERAL
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ARLINGTON, VIRGINIA 22202-2884

February 23, 1990

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Final Report on the Audit of Recoupment of Transportation Costs Incurred on Foreign Military Sales Cases (Report No. 90-038)

We are providing this final report on the Audit of Recoupment of Transportation Costs Incurred on Foreign Military Sales (FMS) Cases for your review and comment. The audit was made during the period December 1988 through March 1989. The primary objectives of the audit were to determine whether transportation commands, including the Navy's QUICKTRANS and the Air Force's LOGAIR air operations, were properly reimbursed for all FMS transportation costs, and to evaluate the adequacy of the methods used to bill transportation costs to FMS customers. In addition, we reviewed the internal controls over the billing and reimbursement of these transportation costs. We also followed up on recommendations from two prior audit reports covering the subject area. During FY's 1987 and 1988, FMS transportation billings to foreign customers amounted to \$30.5 million.

The audit showed that basic procedures exist to ensure that processing of accurate billing information is possible. However, a change is needed in the methodology used to bill FMS customers. In addition, the audit made limited reviews and tests of the internal controls. These reviews and tests showed no material internal control weaknesses. We found that tested items were generally in compliance with applicable laws and regulations; however, we could not determine whether untested items were in compliance with those laws and regulations. The results of the audit are summarized in the following paragraph, and the details and audit recommendations are in Part II of this report.

The transportation rates that DoD used to charge FMS customers exceeded the actual costs of transportation. As a result, the U.S. Government had accumulated \$194.8 million in excess funds as of September 30, 1988. We made a repeat recommendation that the Comptroller of the DoD revise FMS transportation accounting policy to require that such charges be based on actual transportation costs. We also recommended that

the Comptroller of the DoD apply the excess transportation funds to other accounts within the FMS trust fund (page 9).

A draft of this report was provided to the addressees on September 18, 1989. Comments are summarized in Part II of this report, and the complete text is provided in Appendix D.

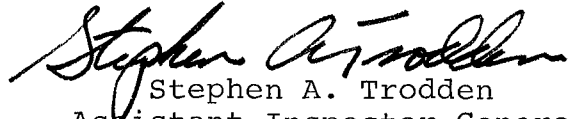
The Deputy Comptroller of the Department of Defense (Management Systems) concurred with the intent of both recommendations and made no comments on the finding. The Deputy Comptroller did not agree to adopt Recommendation 1., which required that DoD change its billing methodology and base its FMS transportation charges on actual costs. However, he stated that additional reductions would be considered after recent changes are evaluated. The Deputy Comptroller also did not agree to adopt Recommendation 2., which required that surplus transportation funds generated from the use of standard transportation rates be allocated to other cost-clearing accounts within the FMS Trust Fund that have a deficit balance. The Deputy Comptroller did not provide additional support for the Department's position for retaining the current FMS transportation billing system, which had been generating an unjustifiable profit that amounted to \$194.8 million at the time of the audit. Accordingly, we request that the Deputy Comptroller either reconsider this position or, in the reply to the final report, provide additional support for a nonconcurrence. This would include responses to the finding and both recommendations.

DoD Directive 7650.3 requires that final comments to audit reports include explicit concurrence or nonconcurrence with findings and recommendations, and that all audit recommendations be resolved within 6 months of the date of the final report. The Deputy Comptroller of the Department of Defense (Management Systems) should provide a response to this report with any additional information within 60 days from the date of this report.

Copies of this final report will be distributed to the activities listed in Appendix F.

The cooperation and courtesies provided to the audit staff are appreciated. A list of audit team members is at Appendix G. Please contact Mr. Raymond A. Spencer, Program

Director, (202) 694-3995 (AUTOVON 224-3995) or Mr. Roger Hopper, Project Manager, at (202) 693-0437 (AUTOVON 223-0437) if you have any questions concerning the report.


Stephen A. Trodden
Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

REPORT ON THE AUDIT OF RECOUPMENT OF TRANSPORTATION
COSTS INCURRED ON FOREIGN MILITARY SALES CASES

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Prepared by:
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REPORT ON THE AUDIT OF RECOUPMENT OF TRANSPORTATION
COSTS INCURRED ON FOREIGN MILITARY SALES CASES

PART I - INTRODUCTION

Background

Foreign Military Sales (FMS) is a major element of the U.S. Government's Security Assistance Program. Within the Department of Defense, the Under Secretary of Defense for Policy is the principal for security assistance matters and provides staff supervision and direction to the Defense Security Assistance Agency (DSAA). DSAA directs, administers, and supervises the execution of the DoD portion of the Security Assistance Program. It is also responsible for the general operation of the Security Assistance Accounting Center (SAAC). The technical operation of SAAC is the responsibility of the Commander, Air Force Accounting and Finance Center.

The Assistant Secretary of Defense (Production and Logistics) is responsible for delivery and movement policy for security assistance materiel, while the Comptroller, DoD establishes financial policy and procedures for security assistance, including accounting and pricing matters. The Military Departments and Defense agencies perform security assistance functions as an integral part of their overall defense mission. They procure and provide defense articles and services to meet approved security assistance requirements.

Transportation of materiel to FMS customers is usually accomplished by commercial collect bills of lading. When items such as sensitive, hazardous, or classified cargo are moved under controlled conditions the Defense Transportation System (DTS) is used. The DTS includes the Transportation Operating Agencies (TOA's) and two contractor-run air operations.

The TOA's are made up of the following activities:

- The Army Military Traffic Management Command provides traffic management services within CONUS and operates common-user military water terminals within CONUS and at selected overseas locations;
- The Navy Military Sealift Command provides worldwide ocean transportation in support of the Security Assistance Program; and
- The Air Force Military Airlift Command's duties include worldwide airlift support for the Security Assistance Program.

The two contractor-run air operations are known as QUICKTRANS and LOGAIR. The Navy Transportation Management Office, Naval Supply Systems Command administers the QUICKTRANS contract, and the Air Force Logistics Command administers the LOGAIR contract. These operations provide airlift capability within CONUS to support the Security Assistance Program. The TOA's, QUICKTRANS, and LOGAIR are collectively referred to in this report as transportation activities.

Transportation costs for materiel shipped through the DTS are paid from the Transportation Cost Clearing Account of the FMS Trust Fund. Receipts from billings to FMS customers are deposited in the clearing account and are used to reimburse the DTS activity shipping the materiel. This revolving account has continually grown since 1978 and as of September 30, 1988, had a credit balance of over \$194.8 million.

FMS customers generally are not billed on the actual cost to transport materiel. The cost of shipment is based on standard rate surcharges. The rates are applied to the value of the item being shipped. Certain types of materiel, such as low-density items, have been exempted from this procedure. The cost to ship low-density items is determined through the use of Look-Up Tables. These tables contain selected low-density, high-cost items whose shipping costs using standard transportation percentages are significantly different from estimated actual charges. Also, with the approval of the Comptroller, DoD, some transportation charges may be based on actual costs rather than the standard rates or the Look-Up Table.

The Arms Export Control Act governs FMS transportation and requires that the U.S. Government recover its full cost for providing transportation services.

Objectives and Scope

Our objectives were to determine whether transportation commands, including the Navy's QUICKTRANS and the Air Force's LOGAIR air operations, were properly reimbursed for all related FMS transportation costs, and to evaluate the adequacy of billing methods and internal controls over the billing of transportation costs to FMS customers.

This financial review was limited to an audit survey due to the survey results and the relatively small dollar amount of annual transportation billings. The internal controls reviewed at each activity consisted primarily of obtaining the most recent Annual Statement of Assurance required by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. To meet the audit objectives, we took the actions described below.

We visited the three TOA's (Military Traffic Management Command, Military Sealift Command, and Military Airlift Command), LOGAIR, and QUICKTRANS, and made a limited review of FMS billing procedures and controls. We took a judgmental sample of 30 FY 1988 FMS transportation billing actions (six actions from each of the five transportation activities visited). We obtained a computer tape of FY 1987 and 1988 transportation billing actions from each of the transportation activities (except for the Military Traffic Management Command) for purposes of selectively comparing these actions to SAAC computer tapes for the same time period. This mainly consisted of reviewing the tapes for duplicate entries.

We visited the SAAC and reviewed policies, procedures, and the limited internal controls used for processing FMS billing actions including the use of billing rates in effect for billing FMS' customers.

We visited the International Logistics Centers operated by the Army, Navy, and Air Force and made limited reviews of their procedures and internal controls over processing information on FMS transportation billing. In addition, we contacted the office of the Comptroller, DoD and the Comptrollers of the Military Departments to obtain an overview of FMS transportation billing policy and processes within the DoD.

The audit did not include a review of the following:

- Composition of the billing rates used by the transportation activities and SAAC;
- Transportation costs billed by and reimbursed to the Military Departments; or
- Reconciliation of the Transportation Cost Clearing Account of the FMS Trust Fund.

Generally, we found that the tested items were in compliance with applicable laws and regulations. Because of the limited review made of internal controls, we cannot form an overall opinion of the propriety of internal controls applicable to the systems covered in the audit. Because of our limited testing, we cannot issue a negative assurance statement. Such a statement would indicate that nothing came to our attention that caused us to believe the untested items were not in compliance with applicable laws and regulations.

This audit was made from December 1988 through March 1989 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix E.

Prior Audit Coverage

Two prior audit reports have been issued covering the audit area. The first report was Defense Audit Service Report No. 80-112, "Report on the Review of Foreign Military Sales Transportation Costs," June 3, 1980, which recommended charging actual costs rather than standard costs. The second report was DoD Inspector General Report No. 84-091, "Pricing of Missiles Sold to Foreign Military Sales Customers," May 31, 1984, which included a recommendation that standard percentages used to bill customers for transportation charges be adjusted to reasonably reflect actual transportation costs. This recommendation was based on a finding that charges far exceeded costs on shipping missile items through the DTS to FMS customers.

To implement the second report's recommendations, DSAA established Look-Up Tables. The purpose of the tables was to allow the billing of estimated actual surface and air transportation charges for those items where the percentages are disproportionate to the actual charges. The DoD Inspector General considered this action to be responsive. However, after reviewing the current methodology used in billing, we do not believe that the use of Look-Up Tables satisfies the intent of the Arms Export Control Act or DoD policy (see Finding).

PART II - FINDINGS AND RECOMMENDATIONS

Recoupment of Transportation Costs

FINDING

The DoD used transportation rates to charge Foreign Military Sales (FMS) customers that exceeded the actual costs of such transportation. This excessive billing for transportation costs occurred because in most cases charges by the Security Assistance Accounting Center (SAAC) were based on estimated rates, known as standard rates, which were percentages applied against the cost of the item being transported; and balances in the Transportation Cost Clearing Account were not closed out at year-end. As a result, the Transportation Cost Clearing Account, which should be closed out at year-end, currently contains funds of \$194.8 million and continues to grow.

DISCUSSION OF DETAILS

Background. Findings cited in two prior audit reports (Report No. 80-112, June 3, 1980, and Report No. 84-091, May 31, 1984) showed that in most cases, transportation amounts billed to foreign customers for shipments through the Defense Transportation System (DTS) far exceeded the actual costs to ship FMS items sold to these countries. The 1980 report recommended charging actual costs rather than standard costs, and the 1984 report included a recommendation that standard percentages used for transportation charges be adjusted to reasonably reflect actual transportation costs. Because of the subsequent findings, we are repeating the recommendation that such transportation billings be based on actual costs rather than standard costs or estimates. Transportation collections from FMS customers have exceeded disbursements for actual transportation costs, resulting in a surplus of \$194.8 million as of September 30, 1988. A summary of the transportation account balances from FY's 1978 through 1988 can be found in Appendix A.

In fiscal years 1987 and 1988, receipts exceeded disbursements by \$25.9 million. Report No. 84-091 gave the surplus accumulation in the Transportation Cost Clearing Account as \$95.7 million as of May 31, 1983. However, the Defense Security Assistance Agency (DSAA) did not revise the standard transportation rate structure as recommended, but instead established a Look-Up Table for selected low-density items.

The Arms Export Control Act, Section 21(a)(3), states that the U.S. Government will recover the full costs of purchasing and transporting FMS material. However, this Act intends that the United States provide FMS service on a break-even basis and not make a profit on these transactions.

The SAAC serves as the central point of contact within DoD for all FMS billings and reimbursement transactions. The SAAC prepares bills and verifies their accuracy prior to forwarding the bills to the foreign customer. Other responsibilities include accounting, recording, reporting, and analyzing information on the automated FMS financial data system.

In computing transportation surcharges, SAAC bills the customer based on the selling price of the item shipped. SAAC does not use the size, weight, and volume characteristics used in commercial billings and by the Transportation Operating Agency (TOA), including QUICKTRANS and LOGAIR billings, to compute the transportation surcharges.

The transportation activities are responsible for physically transporting items to the contracted point of delivery. The transportation activities calculate their bills and send them to the SAAC based on the physical characteristics of the item and the distance the item travels. The billing is done on Standard Form (SF) 1080, "Voucher for Transfers Between Appropriations and/or Funds," which serves as an invoice. Based on the invoice, SAAC usually reimburses the transportation activities within 15 days of receipt.

Billing Methods. SAAC used three methods to compute transportation surcharges: standard rates, Look-Up Tables, and actual costs.

Standard Rates. The standard rates are considered a surcharge for the use of the transportation system. These rates have been in effect since 1982 and are found in DoD 7290.3-M, "Foreign Military Sales Financial Management Manual." During our survey, we were unable to determine how these rates were established, but we verified that for the most part the rates had never been adjusted despite recommendations to the contrary.^{1/} The standard rate is a percentage applied against the cost of the items being shipped. These rates vary depending on the mode of transportation selected by the customer. However, our audit showed that these percentages did not reflect the actual cost to transport the item.

Look-Up Tables. This list of rates covers 17 items, consisting mostly of missiles and missile-related items. These rates were established in 1984 in response to a DoDIG audit recommendation to charge actual costs. The Look-Up Tables can be found in DoD 5105.38-M, "Security Assistance Management Manual."

^{1/} We were informed that only one rate had been changed since 1982, i.e., parcel post, which had been changed to its current 3.75 percent.

Actual Costs. Actual costs may be charged for transporting certain items when approved in advance by the Comptroller, DoD. When the standard percentage rates are disproportionate to the actual costs to transport an item, actual surcharges may be assessed.

Sampled Transportation Billing Actions. We judgmentally sampled 30 transportation billing actions from the records of the transportation activities, selecting 6 transactions from each of the 5 transportation activities visited. We were able to trace 14 of the 30 actions to and through the SAAC billing and reimbursement systems (see Appendix B). For the 14 actions traced, we found that the U.S. Government recouped about \$300,000 more from billed foreign customers than was reimbursed to the transportation agencies. The charges to the FMS customers ranged from over 12,000 percent above the actual costs billed by the transportation activity to 3.5 percent of billed costs. For example, the Military Traffic Management Command billed SAAC for \$2,098 to ship an item, while SAAC billed the FMS customer \$265,775 in transportation charges. This amount was an overcharge of \$263,677, or 12,000 percent over the actual transportation costs. In another example, the Military Airlift Command billed SAAC for \$43.76 to ship an item, while SAAC billed the FMS customer \$1.47. This billing was an undercharge of \$42.29, or 3.5 percent of the actual cost (a 96.5 percent loss to the Government).

We attributed these collections to the billing rate surcharges used by SAAC and SAAC's inability to assess actual costs in billing transportation surcharges. All 14 actions billed to foreign customers were based on the use of standard rates applied by the SAAC.

Transportation Cost Clearing Account. This account is a temporary account that was established as part of the uniform chart of FMS accounts. The purpose of this account is to show transportation surcharges earned on items reported as physically delivered and to show actual transportation costs based on carrier bills. DoD 7290.3-M requires balances in the clearing accounts to be added to the Trust Fund's Equity Account at the end of each fiscal year. These clearing account balances are analyzed to determine if rate adjustments are needed. Our audit showed that an analysis of this account was performed, but the rates were never adjusted as required. Thus the standard transportation rates remained the same although the balance in the Transportation Cost Clearing Account continued to increase. A SAAC official indicated that if the clearing account was closed out at year-end and the surplus placed in the equity account, transportation billings could not be paid at the beginning of the next fiscal year. Since this account is not closed out yearly and because the standard rates are not adjusted periodically, the

account balance had grown to a surplus of over \$194 million at the time of our audit.

Internal Studies. In February 1987, the Director, DSAA concluded an analysis of the FMS Transportation Cost Clearing Account. DSAA determined that "certain transportation billing rates were too high." The results of the analysis were sent to the Comptroller, DoD in a memorandum that detailed the problems found and recommended solutions to these problems.^{2/} DSAA, which had command authority over SAAC, used statistics supplied by SAAC in its analysis. It further concluded that FMS customers were being overcharged, double-billed, and billed prematurely.

To correct the billing rate problems, the Director recommended a reduction in selected rates as follows:

RECOMMENDED FMS TRANSPORTATION BILLING RATE CHANGES ^{2/}

<u>Mode</u>	<u>Current Percentage</u>	<u>Recommended Percentage</u>
Inland	3.75	3.25
Port Handling		
- CONUS	2.5	1.0
- Outside CONUS	1.0	0.5
Sealift		
- Country Rate Area 1	4.0	2.5
- Country Rate Area 2	6.0	4.5

The Comptroller, DoD did not act on the recommendation to reduce transportation rates. Officials in the Office of the Comptroller, DoD stated that there was no basis for changing the transportation rates in spite of the analysis indicating the need for rate changes. At the time DSAA made its recommendations for rate changes, the surplus in the Transportation Cost Clearing Account was \$134 million. As of September 30, 1988, the surplus balance was \$194.8 million.

Billing Customers Based on Actual Costs. We reviewed billing information received by SAAC from the transportation activities, which showed that SF 1080 billings were received with supporting shipment information in the form of listings. These listings contained information on individual FMS shipments, traceable to the individual shipping documents (DD Form 1385, Cargo Manifests). The major item that made tracing possible was

^{2/} Memorandum for the Assistant Secretary of Defense (Comptroller) (now the Comptroller of the Department of Defense), Subject: "FMS Transportation Costs," prepared by the Director, DSAA, dated February 12, 1987.

the Transportation Control Number (TCN). The TCN is a 17-character data element assigned to control and manage every shipment throughout the DTS. The TCN for each shipment is unique and is not duplicated. The FMS TCN's are essentially two-part numbers consisting of the requisition number (14 positions) and a suffix (3 positions). The suffix codes are used to identify partial or split shipments. Requisitions within DoD are prepared on a single-line-item basis in accordance with DoD 4000.25-1-M, "Military Standard Requisitioning and Issue Procedures Manual." The shipment unit is the basic shipping entity for marking, documenting, clearing, and controlling a shipment. By definition (DoD 4500.32-R, Vol. I, "Military Standard Transportation and Movement Procedures"), a shipment unit is a single line item of supply or two or more compatible line items of supply. However, DoD 4500.32-R, Vol. I states that certain line items or commodities will not be consolidated with other line items or commodities into a shipping unit that includes FMS items unless they have the same requisitioner address and FMS case number. Cargo manifest documents accompany the shipment unit. The manifest contains the TCN, identifies (by code) the commodity being shipped, and gives the number of pieces in the shipping unit, the consignee's address, and other essential shipping information. Thus, items shipped can be traced by TCN back to the requisition, which provides for line-item accountability. Accordingly, there is a foundation for billing FMS customers based on actual shipping charges.

Conclusion. The conditions cited in previous audit reports still exist, and Look-Up Tables do not reflect the majority of items sold to FMS customers, nor do they substantially correct the problem of excess collections. We believe that charging actual transportation costs is viable because it will eliminate not only the excess collections from FMS customers but also the requirement to periodically review the standard rates.

RECOMMENDATIONS FOR CORRECTIVE ACTIONS

We recommend that the Comptroller of the Department of Defense:

1. Revise foreign military sales transportation accounting policy by requiring that transportation surcharges be based on actual transportation agencies' billings.
2. Determine the surplus balance of the Transportation Cost Clearing Account and apply the surplus to cover deficit balances in other cost clearing accounts within the Foreign Military Sales Trust Fund, where legally permissible.

MANAGEMENT COMMENTS

Finding

The DoD Deputy Comptroller (Management Systems) responded to the report's recommendations but did not specifically concur or nonconcur with the finding.

Recommendations

The Deputy Comptroller concurred with intent of the report's recommendations. See Appendix D for details.

For Recommendation 1., the Deputy Comptroller stated that the established rates are under continual review and have been adjusted downward several times over the past few years. The reply also stated that the Look-up Tables were instituted so that estimated actual transportation costs are charged when specific reviews indicate that rates are too high or too low for the applicable items. Also mentioned was the recent change in parcel post rates, a reduction from 6.25 percent to 3.75 percent for shipments to Canada, and the establishment of a \$25 maximum charge for CONUS shipments. The Deputy Comptroller stated that additional reductions will be considered after the impact of the most recent changes in rates are accumulated in the cost clearing account and can be evaluated.

On Recommendation 2., the Deputy Comptroller stated that DoD 7290.3-M requires year-end closing entries which close clearing accounts to an equity account and that this requirement could not be met because of deficiencies in the current FMS accounting system. The Deputy Comptroller also stated that transferring collections between cost clearing accounts would not be appropriate because this would be contrary to cost accounting standards and would distort the results of applying the various rates.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

Finding

We do not consider the Deputy Comptroller's reply to this report to be responsive to the finding. DoD Directive 7650.3 requires that management express explicit concurrence or nonconcurrence with each finding in the audit report.

Recommendations

We do not consider the Deputy Comptroller's reply to the recommendations to be responsive. DoD 7650.3 requires explicit concurrence or nonconcurrence with each recommendation and, if

appropriate, alternative methods for accomplishing desired improvements. The directive also requires that management provide completion dates for actions taken or planned. The response contained neither explicit concurrence or nonconcurrence nor completion dates for actions taken or planned. The response did not propose any alternative actions.

We agree that established standard rates are under continual review. However, as stated in page 12 of the draft report, except for parcel post rates, the standard rates have been in effect since 1982. In our exit conference with the DoD Director for Accounting Policy, held May 20, 1989, the Director said that this statement was basically true. He called our attention to the recent parcel post rate change; we had noted this change in our draft report. The Director also stated that based on his office's analysis, the variance of actual costs from the income produced by using the standard rate was around zero. Therefore, the Director stated that he saw no need to change the rates. However, as cited several times in the report, the surplus in the Transportation Cost Clearing Account has continued to grow over the years, as Appendix A demonstrates.

The use of the Look-Up Table is limited since it covers only 17 items, mostly missiles and missile-related items. The majority of FMS items shipped through the Defense Transportation System are not missiles or missile-related items. Therefore, its impact on the billing rate structure is limited.

We would be pleased to evaluate any changes to the standard rate system that have occurred since our exit conferences. Accordingly, the Deputy Comptroller may wish to include these in his response to the final report.

In Recommendation 2., we did not advocate a breach of accounting standards. We fully recognize that there are major problems with the FMS accounting system. However, we are also aware that DoD and Air Force management are taking aggressive action to resolve the problems with the system, and that milestones have been established to develop a new system. We believe that once the system is approved and operational, management can determine its surplus in the equity account. This surplus can then be used to eradicate deficits in other cost clearing accounts. This would be a one-time-only exercise, since adoption of Recommendation 1. would eliminate the need for a Transportation Cost Clearing Account and for periodic analysis of this account. No surplus would be generated if billings were based on actual costs.

TRANSPORTATION ACCOUNT BALANCE
AS OF SEPTEMBER 30, 1988
(IN MILLIONS)

<u>FISCAL YEAR</u>	<u>COLLECTIONS</u>	<u>DISBURSEMENTS</u>	<u>CUMULATIVE BALANCE</u>	<u>VARIANCE</u>
1978-1980	\$112.5	\$69.1	\$ 43.4	
1981	56.9	26.8	73.5	\$30.1
1982	39.5	33.0	80.0	6.5
1983	56.0	32.4	103.6	23.6
1984	81.9	36.1	149.4	45.8
1985	39.8	34.6	154.6	5.2
1986	47.4	33.1	168.9	14.3
1987	47.5	25.7	190.7	21.8
1988	35.0	30.9	194.8	4.1

SOURCE: Figures were obtained from the Security Assistance Accounting Center.

SCHEDULE OF TRANSPORTATION BILLING ACTIONS SAMPLED

<u>NUMBER</u>	<u>TA 1/</u>	<u>CONTROL NUMBER</u>	<u>TAC 2/</u>	<u>TRACEABLE TO SAAC SYSTEM 3/</u>	<u>AMOUNT BILLED BY TA</u>	<u>AMOUNT CHARGED TO FMS CUSTOMER 4/</u>	<u>DIFFERENCE BETWEEN AMOUNT BILLED BY TOA AND BILLED TO FMS CUSTOMER 5/</u>
1	MTMC 6/	BBAA8370899004XAA	AJLB	NO	\$ 183.00		
2	MTMC	QTHV8380419010XB	QJ00	YES	2,098.00	\$265,775.07	\$263,677.07
3	MTMC	BPIA9Z73203903XXX	ABBB	YES	131.35	173.73	42.38
4	MTMC	BSOA9M7247B658XXX	AUDE	NO	10.00		
5	MTMC	BJMA9Z70150007XXX	ABAE	NO	172.00		
6	MTMC	QPIA9M73299001XAX	AJTL	NO	131.00		
7	LOGAIR	DSPT0172931015XXX	DSPI	NO	3.00		
8	LOGAIR	DJOB0172076733XXX	DJ01	NO	5.06		
9	LOGAIR	DTK50150607605XXX	DTK1	NO	31.50		
10	LOGAIR	DJOB0173007606XXX	DJ01	NO	8.47		
11	LOGAIR	PPID9M80821063XXX	PHAA	YES	140.59	560.04	419.45
12	LOGAIR	PHOA9Z72390107XXX	PJBB	YES	150.59	131.51	(19.08)
13	MSC 7/	BHOB9M73359005XEA	AUPT	YES	5,115.32	60,214.00	55,098.68
14	MSC	DGTB6V81201020XXX	DKBL	NO	6.57		
15	MSC	PAT06462205001XXX	PARR	NO	55.82		
16	MSC	BPIA9Z8074A116AXX	AUQE	YES	105.95	402.42	296.47
17	MSC	BESA9M82013521XXX	AUYH	NO	3.56		
18	MSC	BTUZ9M8022A147XXX	AUG1	YES	748.71	663.04	(85.67)
19	QUICK 8/	?DPIF9V81762051XXX	DKBS	YES	102.53	183.72	81.19
20	QUICK	DHOM6451406609XXX	DSFA	YES	78.00		(78.00)
21	QUICK	PPID9M81600135XXX	PHAA	YES	69.27	58.34	(10.93)
22	QUICK	PSPT4V63184535XXX	DIII	NO	13.00		
23	QUICK	PTKB4Z81240581XXX	PJER	YES	444.80	433.79	(11.01)
24	QUICK	PPTP6450635006XXX	PPAC	NO	17.00		
25	MAC 9/	DESA6V82310004XXX	DKBC	YES	20.00	53.36	33.36
26	MAC	DPIF9V82467601XXX	DKBU	YES	43.76	1.47	(42.29)
27	MAC	PJAG4V62932006XXX	PIII	NO	784.38		
28	MAC	PHOA9M82420011XXX	PXXJ	NO	87.19		
29	MAC	BJAA4450384403XXX	AIII	NO	64.60		
30	MAC	BESA9M82367220XXX	AMBV	YES	78.65	89.25	10.60
TOTAL					<u>\$9,327.52</u> 10/	<u>\$328,739.74</u>	<u>\$319,412.22</u>

(See footnotes at end of table).

Footnotes

- 1/ Transportation Activity
- 2/ Transportation account code, which is a four-character code: 1st position denotes service/agency (A-Army, D-Air Force, P-Navy, K-Marine Corps, Q-Defense Security Assistance Agency); 2nd and 3rd positions are country codes; and the 4th position is the customer code.
- 3/ Security Assistance Accounting Center
- 4/ Foreign Military Sales
- 5/ Transportation Operating Agency
- 6/ Military Traffic Management Command
- 7/ Military Sealift Command
- 8/ QUICKTRANS
- 9/ Military Airlift Command
- 10/ Includes only the 14 traced sampled items (numbers 2, 3, 11, 12, 13, 16, 18, 19, 20, 21, 23, 25, 26 and 30).

**REPORT OF POTENTIAL MONETARY SAVINGS
AND OTHER BENEFITS RESULTING FROM AUDIT**

Audit Title Recoupment of Transportation Costs Incurred
on Foreign Military Sales Cases

Project No. 9FB-0024 Date of Draft Report 18 Sept 89

Final Report No. _____ Date _____

Functional Area _____

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
A.1.	Require FMS Transportations billings to foreign customers be based on actual cost.	Produced no monetary benefit.
A.2.	Determine and apply surplus transportation funds to cover deficits in other FMS Trust Fund cost clearing account.	Produced no monetary benefits.



(Management Systems)

OCT 31 1989

**MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT, INSPECTOR
GENERAL, DOD**

**SUBJECT: Draft Report on the Audit of Recoupment of
Transportation Costs Incurred on Foreign Military
Sales Cases (Project No. 9PB-0024)**

A September 18, 1989, memorandum requested the DoD Comptroller's comments and/or concurrence on the subject draft report. The report contained two recommendations which are addressed to the DoD Comptroller.

The recommendations and our position follows:

a. Recommendation 1, "Revise foreign military sales transportation accounting policy by requiring that transportation surcharges be based on actual transportation agencies' billings."

COMMENT: Concur with intent. The established rates are under continual review and have been adjusted downward several times over the past few years. A few years ago, a transportation look-up table was instituted so that estimated actual transportation costs are charged when specific reviews indicate rates are too high or too low for the applicable items. More recently on September 8, 1989, DoD 7290.3-M was revised to establish a maximum charge of \$25 for CONUS shipments by United Parcel Post and to make all shipments to Canada subject to the 3.75 percent CONUS rate in lieu of 6.25 percent. Additional reductions will be considered after the impact of the most recent changes in rates is accumulated by the cost clearing account and can be evaluated.

b. Recommendation 2, "Determine the surplus balance of the Transportation Cost Clearing Account and apply the surplus to cover deficit balances in other cost clearing accounts within the Foreign Military Sales Trust Fund, where legally permissible.

COMMENT: Concur with intent. Paragraph 30103.F. of DoD 7290.3-M requires year-end closing entries which close cost clearing accounts to the Equity of the U.S. Government account. The requirement has not been implemented because of deficiencies in the current central FMS accounting system. However, it would not be appropriate to transfer collections between cost clearing

accounts. This type of transfer would be contrary to prescribed cost accounting standards and could distort the results of applying the various rates. Each rate must have its own actual and earned reimbursements to permit the necessary variance analysis.

A handwritten signature in black ink, appearing to read 'Alvin Tucker', is positioned above the printed name.

Alvin Tucker
Deputy Comptroller
(Management Systems)

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Comptroller of the Department of Defense, Washington, DC
General Counsel, Department of Defense, Washington, DC

Department of the Army

Assistant Secretary of the Army (Financial Management),
Washington, DC
Headquarters, Military Traffic Management Command,
Washington, DC
Military Ocean Terminal, Headquarters Eastern Area,
Bayonne, NJ
Headquarters, Army Security Affairs Command, Alexandria, VA
Army Security Affairs Command, New Cumberland, PA

Department of the Navy

Assistant Secretary of the Navy (Financial Management),
Washington, DC
Office of Technology Transfer and Security Assistance,
Washington, DC
Headquarters, Military Sealift Command, Washington, DC
Naval Supply Systems Command, Washington, DC
Navy Transportation Management Office, Norfolk, VA
Navy International Logistics Control Office, Philadelphia, PA

Department of the Air Force

Deputy Chief of Staff Programs and Resources, Directorate of
International Programs, (AF/PRI), Washington, DC
Assistant Secretary of the Air Force (Financial Management and
Comptroller), Washington, DC
Air Force Accounting and Finance Center, Denver, CO
Security Assistance Accounting Center, Denver, CO
Headquarters, Air Force Logistics Command,
Wright-Patterson Air Force Base, OH
Air Force International Logistics Center, Wright-Patterson
Air Force Base, OH
Headquarters, Military Airlift Command, Scott Air Force Base, IL

Defense Agencies

Defense Security Assistance Agency, Washington, DC

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Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

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